



GOVERNOR'S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE MINUTES

Tuesday, November 27, 2012

1:30 PM

1700 W. Washington, Governor's 2nd Floor Conference Room
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on November 27, 2012 in the 2nd Floor Conference Room, 1700 West Washington, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

Members Present

Michael Hunter (Chair)
John Olsen
Miguel Teposte
Tom Belshe
Kevin McCarthy
Steve Barela

Keely Hitt
Lynne Herndon
Vince Perez
Linda Stanfield
Senator John McComish
Representative Rick Gray

Members Absent

No members were absent.

Others Present

Lorna Romero, Governor's Office
Lindsay Scornavacco, Governor's Office
Chris McIsaac, Governor's Office
Jennifer Solis, Department of Revenue

Patrick Irvine, Fennemore Craig
Craig McPike, Snell & Wilmer
Dennis Hoffman, L. William Seidman
Research Institute

1. Call to Order

Michael Hunter called the meeting to order at 1:35 p.m.

2. Approve Previous Meeting Minutes

Tom Belshe made a motion to approve the minutes from the past four TPT Task Force meetings.

John Olsen seconded the motion.

The Task Force unanimously approved the minutes.

3. Report from State and Local Standardization Working Group

Patrick Irvine, Chair of the State and Local Standardization Working Group, gave a final presentation on his working group. He stated the focus of the working group was to simplify the transaction privilege tax in the context of the state, cities and towns from the taxpayers' perspective.

The easier the tax code is to understand, the more people will likely comply. Simplification will also benefit governments that enforce the tax and collect revenues. The working group discussed having one point of contact for taxpayers and as little variation in the tax base as possible. Mr. Irvine concluded that law is never static and everyone should look at changes through the filter of whether something makes the law more or less complicated.

a) Task Force Discussion

No comments were made.

4. Report from Online Retail Working Group

Dennis Hoffman, Chair of the Online Retail Working Group, gave a final presentation on his working group. He stated that expanding the TPT base to include online and remote sales is purely about purging distortions from the system. Dr. Hoffman continued that if government does not eliminate distortions, it is dictating winners and losers. The current system encourages growth in one sector over another. Insight Global forecasted online retail holiday sales will increase this year by 17%, while overall holiday sales will increase by only 4%. The Online Retail Working Group focused on identifying where distortions exist and attempting to quantify the impact. He continued that progress is also dependent on federal legislation and that the state needs to achieve simplification at the state and local level to be able to effectively broaden the base to capture online and remote sales if the legislation passes. This is not an agenda to raise taxes; this effort is about creating a fair, efficient and business friendly tax system. Dr. Hoffman thanked the Governor and Mr. Hunter for allowing him to chair the working group. He also thanked Michelle Ahlmer from the Arizona Retailers Association for her contributions.

a) Task Force Discussion

No comments were made.

5. Report from Contracting Working Group

Craig McPike, Chair of the Contracting Working Group, gave a final presentation on his working group. The working group looked at the numerous deductions, differences in interpretations and various forms of noncompliance within the contracting industry, though not all of the data is available to completely understand these issues. He stated many parties desire to shift to a materials based tax. Retailers are a class of existing taxpayers that are already required to collect and remit tax, so the transition would be simple. Taxing at the point of sale is easy to understand and comply with. Elaine Smith from the Department of Revenue presented some revenue estimates at the previous working group meeting. Assuming there are no changes to revenue sharing formulas, even with the change in the value of materials, the cities and counties stand to potentially have increased revenues. He continued that the cities and counties take issue with the shift of the location of the tax from the site of construction to the point of sale. He stated that though the concern of the cities and counties is legitimate, the current system is broken and complex. Contracting cannot be looked at in a vacuum because other efforts, such as capturing online retail and remote sales, will contribute to revenues. Policy needs to be focused on what is fair and balanced. Mr. McPike thanked Mr. Hunter and the Task Force for their work and input.

a) Task Force Discussion

Lynne Herndon asked if there was data to address the cities and counties concern about moving to point of sale.

Mr. McPike answered that information on a city by city basis is not readily available.

Tom Belshe commented the cities' problem is with the impact on local sales tax and where items are purchased.

Mr. McPike stated there are two areas for possible shifts in revenue. The first area is with state revenue sharing, but the formula can be adjusted. The second problem is city and county taxes. He stated there is no centralized mechanism in place and each individual city would have to make shifts for their respective budgets.

Kevin McCarthy stated Dr. Hoffman made the point that policy should trump revenue. The state never creates a spreadsheet to see how new policy will affect each individual taxpayer. A system cannot be fixed with a spreadsheet and all governments cannot be held harmless.

Mr. Belshe commented he does not expect all cities to be held harmless, but the shift will move revenues from 91 cities to two or three.

6. Discussion of Draft Report and Recommendations

Mr. Hunter thanked all of the working group chairs for their work and stated the Governor is very appreciative of their sense of exploration and curiosity to go down paths no one has dared to before with tax reform. He continued that the report he has given to the Task Force is the chairman's draft. It is his language and his best effort to reflect what he heard during the Task Force. Mr. Hunter noted there may be divisions within the Task Force that are irreconcilable, but stated he did not want this effort to be shy about clashes. The report respectfully reflects clear opposition to certain ideas by some parties. Mr. Hunter read through the draft report for the Task Force and members of the public. He continued this draft will be made available on the TPT website for everyone to review.

a) Task Force Discussion

Mr. McCarthy stated the Task Force discussed the Model City Tax Code and its creation. The draft report states it was created in response to the business community's concern about the lack of uniformity between cities. It actually only cataloged the lack of uniformity. He continued he does not want readers to think the Model City Tax Code created uniformity. It only created a central reference point.

Mr. Belshe responded he believes that section demonstrates that the Model City Tax Code helped put everything in one place. It may not have created uniformity, but it serves as a reference point.

Mr. Hunter stated Mr. McCarthy's point is well taken, but the Model City Tax Code exists because there is this lack of uniformity.

Mr. McCarthy commented that a discussion about the audit authority program cities have independent of the Department of Revenue would be helpful in the report.

Mr. Hunter stated he welcomes new language for the report to ensure it is fair and accurate. It is helpful to have everyone's input in drafting a final version of the report that the Task Force can vote on December 13th.

Mr. McCarthy commented the last four bullet points under the first recommendation presuppose that the Model City Tax Code will stay in place. He continued this gives the impression the Task Force talked at length about the Model City Tax Code and decided it should be kept. This undermines recommendations for standardization.

Mr. Hunter responded the third bullet point was in a report from the League of Arizona Cities and Towns and there was not much controversy over it.

Mr. Belshe stated there are 49 total options. They will be removing 27 and incorporating 14 into Model language. That is only the initial estimate, and there may be more. Mr. Belshe continued green sheets and options are the two ways to modify the Model City Tax code, so it is unfair to refer to them as noise. He stated he understands Mr. McCarthy's point that the Task Force did not talk about all aspects of the Model City Tax Code, but it did look at the mentioned efforts and those are very big steps toward standardization.

Mr. McCarthy responded Mr. Belshe missed his point. He continued the Task Force can either decide to eliminate those four bullet points or have a debate and vote on where the Task Force stands about maintaining the Model City Tax Code. Mr. McCarthy stated he is comfortable with remaining silent on the issue, but the Task Force did not discuss keeping the Model City Tax Code.

Mr. Hunter asked Mr. McCarthy to correct him if he is wrong and said none of the recommendations are in support or opposition of the Model City Tax Code. The Task Force did not have a debate about the existence of the Model City Tax Code to make a recommendation about it.

Mr. Belshe stated he would be open to inserting clarifying language. A clarifying statement could be added to say the incremental steps to simplify the Model City Tax Code does not mean the Model City Tax Code is endorsed by all members of the Task Force. He continued it would be a shame to say all of the time and effort put into this was not a step in the right direction.

Mr. McCarthy responded those efforts are demonstrated in the body of the report and do not need to be in the recommendations.

Ms. Herndon stated she would like to keep the discussed bullet points in the recommendations. The Task Force should go as far as it can toward simplification and to remove it leaves out a fair amount of the Task Force's discussion.

Mr. McCarthy commented it is important to note the system in place is strongly opposed. The clarifying language Mr. Belshe recommended may be sufficient.

Mr. Belshe commented that in places where the report says the League of Arizona Cities and Towns is opposed to something, it should reflect why they are opposed.

7. Topics for Future Task Force Meetings

Mr. Hunter stated if the Task Force is comfortable with him taking the lead on the report then he will continue his work on it. He welcomed input from everyone so he can do his best to reflect the work of the Task Force. It is anticipated the final report will be voted on during the December 13th

Task Force meeting.

a) Task Force Discussion

No comments were made.

8. Call to the Public

No members of the public signed in to speak.

9. Adjournment

Mr. Hunter adjourned the meeting at 3:30 p.m.